

**REPORT OF THE AUDIT OF THE
GREEN RIVER REGIONAL
EDUCATIONAL COOPERATIVE, INC.**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary, Finance and Administration Cabinet
Gene Wilhoit, Commissioner, Department of Education
Robert S. Sherman, Director, Legislative Research Commission
Liz Storey, Executive Director, Green River Regional Educational Cooperative, Inc.
Board of Directors of the Green River Regional Educational Cooperative, Inc.

The enclosed report prepared by Berger & Company CPA, PSC, Certified Public Accountants, presents the financial statements of the Green River Regional Educational Cooperative, Inc., Bowling Green, Kentucky, as of June 30, 2003.

We engaged Berger & Company CPA, PSC to perform the financial audit of this educational cooperative. We worked closely with the firm during our report review process; Berger & Company CPA, PSC evaluated the Green River Regional Educational Cooperative, Inc.'s internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**AUDIT EXAMINATION OF THE
GREEN RIVER REGIONAL
EDUCATIONAL COOPERATIVE**

For the year ended June 30, 2003

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GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
FISCAL YEAR ENDED JUNE 30, 2003
EXECUTIVE SUMMARY

On November 21, 2003 fieldwork was completed on the fiscal year ended June 30, 2003 audit of the Green River Regional Educational Cooperative (GRREC). An unqualified opinion was rendered on the financial statements. Our audit revealed no reportable conditions relating to the federal awards and no comments relating to the financial statements.

Financial Condition:

Fund balance increased by \$127,290 from prior fiscal year, resulting in an increase in cash of \$67,942. Revenues increased by \$503,896 from the prior year and disbursements increased by \$704,104.

Debt Obligations:

At June 30, 2003, GRREC did not have any debt obligations.

Fund Restrictions:

At June 30, 2003, GRREC had \$61,479 of restricted fund balance for accrued sick leave.

Deposits:

GRREC's deposits were fully insured and collateralized by pledged securities.



INDEPENDENT AUDITORS' REPORT

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Gene Wilhoit, Commissioner, Department of Education
Board of Directors, Green River Regional Educational Cooperative

We have audited the accompanying financial statements of Green River Regional Educational Cooperative ("GRREC") as of and for the year ended June 30, 2003, as listed in the table of contents. These financial statements are the responsibility of GRREC's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the property and equipment group of accounts, which should be included to conform with accounting principles generally accepted in the United States of America. The amounts that should be recorded as assets, liabilities, revenues and expenditures from this omitted fund, accounts, and account group are not known. As described in Note 1, the Cooperative's policy is to prepare its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Accordingly, the accompanying financial statements are not intended to present financial position and results of operations in conformity with accounting principles generally accepted in the United States of America.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Gene Wilhoit, Commissioner, Department of Education
Board of Directors, Green River Regional Educational Cooperative

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities and fund balances arising from cash transactions of the Green River Regional Educational Cooperative as of June 30, 2003 and the cash receipts and disbursements for the year then ended, on a basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2003 on our consideration of GRREC's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying information used as supplementary schedule in the table of contents is presented for purposes of additional analysis and is not a required part of the general purpose financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the general purpose financial statements taken as a whole.

Respectfully Submitted,

A handwritten signature in dark ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company, CPA, PSC

Audit fieldwork completed –
November 21, 2003

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
**STATEMENT OF ASSETS, LIABILITIES
AND FUND BALANCE - MODIFIED CASH BASIS**
June 30, 2003

ASSETS

| | |
|---------------------|-------------------|
| Cash (Note 2) | \$ 626,981 |
| Accounts Receivable | 250,356 |
| Total Assets | <u>\$ 877,337</u> |

LIABILITIES AND FUND BALANCE

| | |
|------------------------------------|-------------------|
| Liabilities - Accounts Payable | \$ 165,189 |
| Fund Balance | |
| Restricted for Accrued Sick Leave | \$ 30,740 |
| Unrestricted | 681,408 |
| Total Fund Balance | <u>712,148</u> |
| Total Liabilities and Fund Balance | <u>\$ 877,337</u> |

The accompanying notes are an integral part of the financial statements.

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
**STATEMENT OF CASH RECEIPTS
AND DISBURSEMENTS - MODIFIED CASH BASIS**
June 30, 2003

RECEIPTS

| | | |
|---|------------------|--------------|
| Title I | \$ 43,065 | |
| Law Conference | 16,170 | |
| ASAP | 58,189 | |
| Administrative/Professional Development | 295,639 | |
| Math Academy | 73,796 | |
| Federal Grants | 2,023,584 | |
| Membership Fees | 126,124 | |
| Future Educators of America | 20,000 | |
| Administrative Fees | 180,692 | |
| Total Revenues | <u>2,837,259</u> | \$ 2,837,259 |

DISBURSEMENTS

| | | |
|--|------------------|------------|
| Title I | \$ 24,995 | |
| Law Conference | 14,434 | |
| ASAP | 34,358 | |
| Administrative/Professional Development | 110,135 | |
| Trans-to-Teach | 376,612 | |
| Math Academy | 68,967 | |
| Reading Academy | 48,311 | |
| High School reform | 185,061 | |
| Caveland Educ Support | 365,368 | |
| KASHRM | 5,648 | |
| Teacher Academy | 25,823 | |
| Effective SCHS | 970,695 | |
| Future Educators of America | 7,692 | |
| KY 21st Century | 5,692 | |
| Drop Out Prevent | 178,364 | |
| Salaries & Related | 276,804 | |
| Operating | 7,199 | |
| Administrative Fees | 3,811 | |
| Use of Donated Facilities | 25,695 | |
| Total Expenditures | <u>2,735,664</u> | |
| Excess (deficit) of revenues over expenditures | | \$ 101,595 |

OTHER FINANCING SOURCES (USES)

| | | |
|--|---------------|--------------------------|
| Donated Facilities | <u>25,695</u> | |
| Excess (deficit) of revenues and other financing sources over expenditures and other financing uses | | \$ 127,290 |
| Fund Balance July 1, 2002 | | 584,858 |
| Fund Balance June 30, 2003 | | <u><u>\$ 712,148</u></u> |

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS
June 30, 2003

Note 1 – Summary of Significant Accounting Policies

A. Reporting Entity

The cooperative is a Non-profit Corporation organized to serve the local Boards of Education in the following counties: Adair, Allen, Barren, Breckenridge, Butler, Clinton, Cumberland, Daviess, Edmonson, Grayson, Green, Hart, LaRue, Logan, Meade, Metcalfe, Monroe, Ohio, Simpson, Taylor, Todd, and Warren in addition to the following Independent Schools of Bowling Green, Campbellsville, Caverna, Cloverport, Glasgow, Russellville and Western Kentucky University.

On July 1, 2001, the Caveland Educational Support Center, a special education cooperative, became part of the GRREC organization. Prior to June 30, 2001, Caveland's fiscal agent was Western Kentucky University. GRREC's responsibilities to Caveland include: Overseeing grants, payroll, benefits, bookkeeping functions, drawdowns, quarterly reporting, and workshop administration.

B. Fund Accounting

The Cooperative maintains its accounting records in accordance with the principles of "fund accounting." Fund accounting is a concept developed to meet the needs of governmental and non-profit entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund reflected in a self-balancing group of accounts which stands separated from the activities reported in other funds. The Cooperative has one bank account which all funds are deposited. A fund balance is maintained for each type of funds received, along with receipts and expenditures for each fund.

C. Basis of Accounting

The records of the Cooperative's financial statements are maintained on a modified cash basis method of accounting and the budgetary process is maintained on the cash basis method of accounting.

D. Inventories

Supplies and materials are charged to expenditures when purchased.

E. Property and Equipment Group of Accounts

The general fixed assets are recorded as expenditures of the fund from which the disbursement is made. The Cooperative does not maintain a record of the cost of its property and equipment, therefore, no group of accounts is maintained. The Cooperative is familiar with GASB 34 and is preparing to initiate it as required.

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

Note 1 - Summary of Significant Accounting Policies (Cont'd)

F. Total Columns

Total columns on the financial statements are indicated “Memorandum Only,” as data in these columns does not present financial position, results of operations, or changes in fund balance in conformity with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

Note 2 - Cash and Cash Equivalents

GRREC's cash and cash equivalents consist of amounts deposited in interest-bearing accounts. GRREC considers demand deposits, money market funds and other investments with an original maturity of 90 days or less to be cash equivalents. As of June 30, 2003, the carrying amount of GRREC's deposits was \$626,981 and the banking institutions' balance was \$664,089. The difference of \$42,108, between GRREC's deposit balance and the banking institutions' balance results from deposits in transit and outstanding checks. The Co-op maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Co-op and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the Co-op's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Co-op's agent in the Co-op's name, or provided surety bond(s) which named the Co-op as beneficiary/obligee on the bond(s).

Note 3 – Retirement Plans

A. Kentucky Teachers' Retirement System

Plan Description – The Kentucky Teachers' Retirement System (KTRS) is an “actuarial reserve, joint contributing” defined benefit public employee retirement system. The plan provides benefit pension plan coverage for local school districts and other public educational agencies within the state. All full-time employees occupying a position requiring certification by the Kentucky Department of Education are covered under the defined benefit plan administered by KTRS. Full-time employees whose job description require a degree and have a four-year college or university are also covered.

The Plan provides for retirement, disability, death, survivor and health benefits of its members. The KTRS annual financial report and other required disclosure information are available by writing the Kentucky Teacher Retirement System, 479 Versailles Road, Frankfort Kentucky 40601-3868; or by calling 800-618-1687.

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

Note 3 – Retirement Plans (continued)

A. Kentucky Teachers' Retirement System (continued)

Service retirement – A member is fully vested after five years of creditable service and entitled to any benefit for which eligibility requirements have been met. Special provisions may apply to members who accept a covered position after retirement.

Normal

27 years of covered service, or
Any combination of age plus years of service, which equals 72

Reduced benefits

Age 55 with 5 years of covered service, or
A minimum of 20 years covered service

Funding Status and Progress – The Commonwealth of Kentucky contributes to the retirement system an amount equal to the current authorized rate times the aggregate annual compensation of eligible KTRS members. Therefore, all risks and employer matching costs are not shared by the District but are a liability of the Commonwealth. The authority for employer contributions is defined in Chapter 161, Section 540(1) and Chapter 161, Section 555 of the Kentucky Revised Statutes. The following are the KTRS contribution rates for the year ended June 30, 2003:

Employee Contribution
9.855 %

State of Kentucky
9.855 % plus 3.25 %

B. County Employees Retirement System

The County Employees Retirement System of Kentucky ("System") is a multi-employer public retirement plan created by and operating under Kentucky Law.

The County Employees Retirement System is a defined benefit plan which covers substantially all regular non-certified, full-time employees of each county and school board, and any additional eligible local agencies electing to participate in the System. The Plan provides for retirement, disability and death benefits.

For the year ended June 30, 2003, participating employees contributed 5.00% of creditable compensation to the System. The total payroll of GRREC was \$625,708 and with \$169,280 eligible to participate in the system.

Employer contribution rates are intended to fund the System's normal cost on a current basis, plus an amount equal to the amortization of unfunded past service costs over thirty years, using the level percentage of payroll method. Such contribution rates are determined by the Board of Trustees of Kentucky Teachers Retirement Systems each biennium. Participating employers

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

Note 3 – Retirement Plans (continued)

B. County Employees Retirement System (continued)

contributed 6.41% of members' non-hazardous compensation for the year ended June 30, 2003. The contribution requirement for the year ended June 30, 2003 was \$19,198, which consisted of \$10,734 from the Board and \$8,464 from the Employees.

Vesting in a retirement benefit begins immediately upon entry into the System. The participant has a fully-vested interest after the completion of sixty months of service, twelve of which are current service. At a minimum, terminated employees are refunded their contributions with credited interest at 3% compounded annually through June 30, 1980, 6% thereafter through June 30, 1986, and 4% thereafter.

The pension benefit obligation, which is the actuarial present value of credited projected benefits, is a standardized disclosure measure of the present value of pension benefit, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The System does not make separate measurements of assets and benefit obligations for individual employers.

The pension benefit obligation, determined as a part of actuarial valuation, at June 30, 2002 (the most recent date for which audited information is available), for the System as a whole, was \$5,492,646,422. The System's net assets available for benefits on June 30, 2002 (based on a five – year moving average of market value to book value) were \$6,883,298,951, leaving a funded pension benefit obligation of \$1,390,652,529.

Ten-year historical trend information designed to provide information about the System's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement System's Annual Report for the fiscal year ending June 30, 2002.

Note 4 - Contingencies

GRREC receives funding from state and local government agencies. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of money advanced or refuse to reimburse GRREC for its disbursements. The amount of such future refunds and unreimbursed disbursement, if any, is not expected to be significant. Continuation of the consortium's programs is predicated upon the grantors' satisfaction that the funds provided are being sent as intended and the grantors' intent to continue their programs.

Note 5 – Insurance and Related Activities

GRREC is exposed to various forms of loss of assets associated with the risk of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. GRREC has purchased certain policies which are retrospectively rated, which includes worker's compensation insurance.

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

June 30, 2003

Note 6 – Accumulated Unpaid Sick Leave Benefits

Upon retirement from GRREC, an employee will receive from the Cooperative an amount equal to 30% of the value of accumulated sick leave. At June 30, 2003, this amount totaled \$61,479 for those employees with 27 or more years of experience. No accrual is recorded in the financial statements due to the contingent nature of this amount. Fifty (50) percent of this amount is a required reserve and is included as a restricted portion of the general fund.

Note 7 – Income Taxes

GRREC is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. GRREC files form 990, return of organization exempt from income tax.

Note 8 - Cobra

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put GRREC at risk for a substantial loss (contingency).

Note 9 – Subsequent Event

Subsequent to the current fiscal year, GRREC has been awarded a \$1 million grant for American History and a \$2 million grant for Smaller Learning Communities. The American History grant and the Smaller Learning Communities grant will be paid over the next 3 years.

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2003

| Federal Grantor Agency/ Passthrough Grantor/ Program Title | Federal CFDA Number | Pass-Through Grantor's Number | Federal Expenditures |
|---|----------------------------|--------------------------------------|-----------------------------|
| Direct from US Department of Education | | | |
| 21st Century Community Learning Centers | 84.287A * | n/a | \$ 482,287 |
| 21st Century Community Learning Centers | 84.287A * | n/a | 522,882 |
| Transition to Teaching Program | 84.350A * | n/a | 241,605 |
| Transition to Teaching Program | 84.350A * | n/a | 67,552 |
| Transition to Teaching Program | 84.350A * | n/a | 41,414 |
| Drop Out Prevention | 84.360A | n/a | <u>175,529</u> |
| Total Direct from US Department of Education | | | <u>\$ 1,531,269</u> |
| US Department of Education/ Passed Through Kentucky Department of Education | | | |
| High School Reform | 84.215G | M-02167881 | \$ 172,721 |
| High School Reform | 84.215G | M-02167881 | 10,905 |
| Caveland Educ. Support Ctr.-IDEA, Part B | 84.027 * | IDEA-B-WKU-DG | 129,442 |
| Caveland Educ. Support Ctr.-IDEA, Part B | 84.027 * | IDEA-B-WKU-DG | 241,968 |
| Caveland Educ. Support Ctr.-IDEA, Part B | 84.027 * | IDEA-B-WKU-DG | <u>1,605</u> |
| Total Passed Through Kentucky Department of Education | | | <u>\$ 556,641</u> |
| Total Direct from US Department of Education and Pass-Through Kentucky Department of Education | | | <u>\$ 2,087,910</u> |

* Major Program as defined by OMB Circular A-133

See accountant's report.

GREEN RIVER REGIONAL EDUCATION COOPERATIVE

Summary of Auditor's Results
For the Period Ended June 30, 2003

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes X no

Reportable condition(s) identified that are not considered to be
material weaknesses? _____ yes X none reported

Noncompliance material to financial
statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

Material weakness identified? _____ yes X no

Reportable condition(s) identified that are not considered to be
material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance
with section 510(a) of Circular A-133? _____ yes X no

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 84.287A | 21st Century Community Learning Centers / |
| | After School Learning Centers |
| 84.350A | Transition to Teaching Program |
| 84.027 | IDEA, Part B |

Dollar threshold used to distinguish between Type A and B Programs: \$ 300,000

Auditee qualified as low-risk auditee? X yes _____ no

See accountants' report.

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Year Ended June 30, 2003

NOTE 1: Basis of Accounting

The schedule of expenditures of federal awards is presented using the cash basis of accounting.

SUPPLEMENTARY SCHEDULE

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE

BUDGET VS. ACTUAL

June 30, 2003

| REVENUES | Budget | Actual | Variance Favorable (Unfavorable) |
|---|---------------------|--------------------------|--|
| Title I | \$ 44,000 | \$ 43,065 | (935) |
| Kashrm | 11,000 | 7,055 | (3,945) |
| Law Conference | 17,000 | 16,170 | (830) |
| ASAP | 32,000 | 41,250 | 9,250 |
| Trans-to-Teach | 685,574 | 358,628 | (326,946) |
| Math Academy | 16,604 | 27,500 | 10,896 |
| High School Reform | 404,821 | - | (404,821) |
| Drop Out Prevention | 450,560 | 175,528 | (275,032) |
| Caveland Educ Support | 536,766 | 371,432 | (165,334) |
| Teacher Academy | 25,823 | 25,823 | - |
| FEA Grant | 20,000 | 20,000 | - |
| Safe Center Grant | 1,426,454 | 1,005,170 | (421,284) |
| Membership Fees | 126,124 | 126,124 | - |
| Administrative Fees/District&Prof Development | 520,958 | 467,582 | (53,376) |
| Total Reveunes | <u>\$ 4,317,684</u> | <u>\$ 2,685,327</u> | <u>\$ (1,632,357)</u> |
| EXPENDITURES | | | |
| Title I | \$ 44,000 | \$ 24,995 | \$ 19,005 |
| Kashrm | 11,000 | 10,660 | 340 |
| Law Conference | 17,000 | 14,434 | 2,566 |
| ASAP | 32,000 | 24,787 | 7,213 |
| Administrative/Professional Development | 284,003 | 284,003 | - |
| Trans-to-Teach | 685,574 | 350,571 | 335,003 |
| Math Academy | 16,605 | 16,329 | 276 |
| High School Reform | 404,821 | 183,626 | 221,195 |
| Drop Out Prevention | 450,560 | 175,529 | 275,031 |
| T eacher Academy | 25,823 | 25,823 | - |
| FEA Grant | 20,000 | 7,592 | 12,408 |
| Caveland Educ Support | 536,766 | 373,014 | 163,752 |
| Safe Center | 1,426,454 | 1,005,170 | 421,284 |
| Operating Salaries & Related | 363,078 | 125,854 | 237,224 |
| Total Expenditures | <u>\$ 4,317,684</u> | <u>\$ 2,622,387</u> | <u>\$ 1,695,297</u> |
| Excess of Revenues Over (Under) Expenditires | <u><u>\$ -</u></u> | <u>\$ 62,940</u> | <u>\$ 62,940</u> |
| Fund Balance July 1, 2002 | | 584,858 | |
| Adjustment to Conform with Modified Cash Basis of Accounting | | 64,350 | |
| Fund Balance June 30, 2003 | | <u><u>\$ 712,148</u></u> | |

See accountants' report.

OTHER REPORTS



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Gene Wilhoit, Commissioner, Department of Education

Board of Directors, Green River Regional Educational Cooperative

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of Green River Regional Educational Cooperative ("GRREC") as of and for the year ended June 30, 2003, and have issued our report thereon dated November 21, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether GRREC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance that is required to be reported under Government Auditing Standards.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Gene Wilhoit, Commissioner, Department of Education
Board of Directors, Green River Regional Educational Cooperative

Internal Control Over Financial Reporting

In planning and performing our audit, we considered GRREC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Members of the Board, management, Kentucky Department of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in dark ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company, CPA, PSC

Audit fieldwork completed -
November 21, 2003



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Gene Wilhoit, Commissioner, Department of Education
Board of Directors, Green River Regional Educational Cooperative, Inc.

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Compliance

We have audited the compliance of Green River Regional Educational Cooperative with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Green River Regional Educational Cooperative's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Green River Regional Educational Cooperative's management. Our responsibility is to express an opinion on Green River Regional Educational Cooperative's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and OMB Circular A-133, Audits of States, Local Governments, Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above, that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about GRREC's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Green River Regional Educational Cooperative's compliance with those requirements.

In our opinion Green River Regional Educational Cooperative's complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Honorable Ernie Fletcher, Governor
Gene Wilhoit, Commissioner, Department of Education
Board of Directors, Green River Regional Educational Cooperative, Inc.
Report on Compliance With Requirements Applicable to Each
Major Program and Internal Control Over Compliance in Accordance
With OMB Circular A-133(Continued)

Internal Control Over Compliance

The management of Green River Regional Educational Cooperative's is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Green River Regional Educational Cooperative's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Members of the Board, management, Kentucky Department of Education, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully Submitted,

A handwritten signature in dark ink that reads "Berger & Company CPA PSC". The signature is written in a cursive, flowing style.

Berger & Company, CPA, PSC

Audit Fieldwork Completed -
November 21, 2003

GREEN RIVER REGIONAL EDUCATIONAL COOPERATIVE
SUMMARY OF AUDITOR'S RESULTS
Year ended June 30, 2003

We have issued an unqualified opinion, dated November 21, 2003, on the financial statements of Green River Regional Educational Cooperative as of and for the year ended June 30, 2003.

Our audit disclosed no instances of noncompliance which are material to the Green River Regional Educational Cooperative's financial statements.

We have issued an unqualified opinion, dated November 21, 2003, on the Green River Regional Educational Cooperative's compliance for major programs.

Our audit disclosed no findings required to be reported under the provisions of OMB Circular A-133.

The threshold for determining Types A and B programs was \$300,000.

The programs tested as a major program were: Twenty-First Century, CFDA No. 84.287A; Transition to Teaching, CFDA No. 84.350.

The Green River Regional Educational Cooperative qualified as a low-risk auditee under the provisions of OMB Circular A-133.

Our audit disclosed no findings or questioned costs for federal awards as defined by OMB Circular A-133.

Our audit disclosed no findings, which are required to be reported in accordance with *Governmental Auditing Standards*.

